County of Los Angeles
CHIEF EXECUTIVE OFFICE
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SACHI A. HAMAI
Interim Chief Executive Officer

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

#50 of SEPTMBER 29, 2015

Patrick Ogawa
PATRICK OGAWA
ACTING EXECUTIVE OFFICER

September 29, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

RECOMMENDED REVISIONS TO BOARD POLICY 4.030
BUDGET POLICIES AND PRIORITIES
(ALL DISTRICTS) (3-VOTES)

SUBJECT

Recommendation to approve revisions to Board Policy 4.030 "Budget Policies and Priorities" to add provisions regarding the allocation of supervisorial district-specific funding.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt the attached revised fiscal policy.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On June 2, 2015, on a joint motion by Supervisors Ridley-Thomas and Antonovich, as amended by Supervisor Solis, the Board instructed the Interim Chief Executive Officer, in collaboration with the Auditor-Controller, Treasurer and Tax Collector, and County Counsel, to report back during the Supplemental Budget with the necessary recommendations to enact policy amendments regarding the allocation of supervisorial district-specific funding.

As instructed by your Board, our office met with the departments of the Auditor-Controller, Treasurer and Tax Collector, and County Counsel to review the existing Fiscal Policies. The proposed policy revisions are based on feedback and concurrence by all departments. These revisions provide guidelines for the allocation of ongoing supervisorial district specific funding and ensure consistency with existing Budget and Fiscal Policies. Revisions include requiring a super-majority (four-fifths vote) to approve the allocation of ongoing district-specific funding secured by formal agreements for a time period exceeding the term-limited tenure of the sponsoring supervisor and reporting to the Board in instances when net County cost funding is being substituted for supervisorial district-specific funding.

The Board also called for the periodic review of Funding Agreement language to ensure conformance with best practices and consistency with Board policies and procedures. Our office will continue to work with the Auditor-Controller and County Counsel to ensure the periodic review of Funding Agreement language.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan of Operational Effectiveness/Fiscal Sustainability (Goal 1) directs that we maximize the effectiveness of processes, structure, operations, and strong fiscal management to support timely delivery of customer-oriented and efficient public services. Adoption of the proposed policy revisions advances this goal by establishing guidelines for the allocation of district-specific funding that are consistent with strong fiscal management practices to ensure minimal impact to critical programs and services.

FISCAL IMPACT/FINANCING

Approval of the revised policies will allow the County to continue its prudent fiscal practices by establishing guidelines for the allocation of ongoing district-specific funding.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

As County Counsel advised your Board when this matter was last discussed on September 30, 2014, a simple majority of the Board could adopt the proposed revised fiscal policies, even the policy revisions requiring a super-majority to approve certain actions. However, County Counsel further advised that a simple majority of your Board could also suspend, waive, or repeal the policy calling for a super-majority vote.

This advice is based upon a formal California Attorney General opinion which addressed this very issue following a request for a legal opinion from the County of Mono. After reviewing applicable legal precedent, the Attorney General concluded that while a board of supervisors may adopt a rule that mandates a four-fifths vote of the board to act regarding specified matters which otherwise would require only a majority vote for adoption, such a rule may itself be amended or repealed by a majority vote of the board. The Attorney General reasoned that a majority does not have the power to make a rule which cannot be modified or repealed by a majority. The Attorney General concluded that if a majority of an official body has the authority in the first instance to pass a rule, a majority has the authority to annul or repeal the same rule, even a rule which provides that no rule can be repealed or amended without a super-majority vote. The Attorney General also noted that no meeting of a legislative body can bind a subsequent one by irrepealable acts or rules of procedure. 66 Cal.Ops. Atty.Gen. 336, 338-339 (1983).

<u>IMPACT ON CURRENT SERVICES (OR PROJECTS)</u>

Approval of the recommended actions will have no impact on current services or projects.

Respectfully submitted,

Sachi A. Hamai
Interim Chief Executive Officer

SAH:JJ:SK
MM:GS:yjf

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Treasurer and Tax Collector

Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.030	Budget Policies and Priorities	12/17/96

PURPOSE

Fosters fiscal prudence and long-term strategic fiscal planning by establishing policies and priorities that will assist departments in preparing their budget requests, provides direction to the Chief Executive Officer in developing the Recommended Budget and provides a context to help guide Board decision-making consistent with deliberations on the Final Budget.

REFERENCE

December 17, 1996 Board Order, **Synopsis 67**

September 21, 2004, **Board Order 13**

January 27, 2009, **Board Order 15**

February 3, 1998 **Board Motion**

June 20, 2011, **Board Motion**

May 15, 2012, **Board Order 20**

June 24, 2013 **Board Order 3**

August 12, 2014 **Board Order 6**

September 30, 2014 **Board Order 56**

September 29, 2015 Board Order XX

POLICY

The initial policy has been amended and augmented with additional polices which are consistent with the general budget policy direction indicated by recent Board actions and discussions.

Budget Policies:

1. In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible. In general, any service reduction, which may be necessary, should include commensurate reductions in administrative functions, such as management/supervisory, payroll, or other support staff. Reductions should include an overall review of management structure with the objective of reducing layers of management. Further, reductions should focus on positions most recently added and/or programs most recently augmented.

2. Focus reductions in programs which are discretionary or where the service level is discretionary.

3. Ongoing costs should be funded with ongoing revenues. Aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained, will foster stability, predictability, and long-range planning, while avoiding volatility in service levels. Before expanding services, use new, ongoing revenues to meet current obligations and reduce reliance on one-time funding. New programs should not be proposed without identification of (a) specific and continuous funding source(s).

4. The budget should be based on realistic revenue estimates. Future costs should only be budgeted if there is a high probability that the funds will be available to support them. Reliance on new revenues from anticipated growth or revenues contingent upon passage of legislation, unless reasonably assured, can place the budget at risk and raise false expectations.

5. Mandated programs should normally be implemented at the level of funding provided by the State or federal government; continuing to provide supplemental local funding for unfunded or under-funded State/federal mandates allows other levels of government to escape responsibility for providing adequate funding for mandates they place on the County. Similarly, to the extent that public health and safety are not jeopardized, County overmatches should be reduced or eliminated.

6. All new requests for program funding should be accompanied with clear and concise statements of the program's mission, objectives, and intended measurable outcomes; managers will be evaluated, in part, on achievement of outcomes.

7. Unless there is a clear compelling reason for a particular service to be provided

by County employees, the choice of a service provider should be based on which entity can provide the service most effectively at lowest cost, whether it be the County, a non-profit organization, a private business, or another jurisdiction.

8. The feasibility and legality of imposing fees or other charges should be evaluated for any service provided by the County where full cost recovery is not currently achieved, particularly services which benefit other jurisdictions.

9. A Reserve for Rainy Day Funds should be maintained to protect essential County programs against unforeseen emergencies and economic downturns. The Reserve cap should be 10% of on-going locally generated revenue. Transfers, at a minimum of ten percent (10%) of excess fund balance, less Board approved carryovers, shall be set aside in the Rainy Day Fund and/or the Other Post Employment Benefits (OPEB) trust fund each year until the 10% cap is met. Excess fund balance is defined as the difference between the actual year-end fund balance amount as determined by the Auditor-Controller, less the estimated fund balance amount included in the Adopted Budget. Board approved carryover is defined as unspent funding that was previously approved by the Board for critical programs and/or uncompleted projects.

   When the reserve cap of 10% is reached, the annual 10% of excess fund balance amount should be deposited into the OPEB trust fund to be made available for unfunded retiree health obligations. The objective is to avoid on-going commitments with funding that may not be sustainable in an economic downturn.

10. A percentage (5% - 10%) of new ongoing discretionary revenues should be set aside annually, during the budget process, in Appropriation for Contingencies, as a hedge against any unforeseen fiscal issues during the year. At year end, these funds will be transferred to reserves or used to buy down the Retiree Health Unfunded Liability.

11. Additionally, a fixed one-time amount (minimum $5.0 million) should be set aside annually, during the budget process, to address deferred maintenance and/or an on-going amount in the Recommended Budget phase, if on-going funding allows.

12. Budget decisions should be considered within the context of revenue and expenses projected beyond a single fiscal year. A long-range forecast should be developed and maintained to reflect continuing programs, anticipated new initiatives, revenue changes, cost increases, potential problem issues and other factors that may impact strategy for maintaining a balanced budget over several years.

13. The status of expenses and revenue for each department should be closely and thoroughly monitored, with reports provided to the Board on a regular basis.

Department Heads should be responsible for tracking deviations from planned revenue receipts and expenses, and for recommending adjustments as needed to end fiscal year in balance.

14. The County should phase in funding of unfunded liabilities. The County currently budgets a number of unfunded incurred liabilities, such as Workers' Compensation, on a pay-as-you-go basis, instead of funding reserves to cover future payments. Failure to address unfunded liabilities is a form of deficit spending, which if left unchecked, will eventually consume larger and larger portions of the annual budget. Accepted actuarial and accounting practices require that reserves be established so that future payouts of today's costs do not impact future operating budgets. To address the major unfunded actuarial liabilities of the County, a structured multi-year plan based on an incrementally increased on-going annual funding should be developed and implemented. These costs will be incorporated into the County's long-range forecast.

15. The County provides Health Care and Dependent Care Spending Account benefits that help participating employees save money by using pre-tax dollars to pay for certain eligible expenses. Under applicable federal tax rules, plan participants must forfeit any money that is not spent on unreimbursed, eligible expenses during the plan year. Forfeited spending account funds should be used as follows: a) Forfeited employees' Dependent Care Spending Account monies shall not revert to the General Fund at the end of the year. The monies should be equally divided amongst County-operated child care centers for facility and/or program enhancements. The County's child care coordinator should work with the operator and advisory committee of each site to develop a plan to utilize the funds; and b) Forfeited employee Health Care Spending Account monies, as determined by the Department of Human Resources, shall be transferred to the Reserve for Rainy Day Funds each fiscal year on an annual basis.

16. The Los Angeles County Employee Retirement Association (LACERA) administers the County's Retiree Healthcare Program on behalf of the County and maintains a prudent premium reserve to offset expected premium increases among other things. Should the amount of premium reserve exceed the prudent reserve level established by LACERA, the County will direct LACERA to transfer the County's share of the excess premium reserves to the Other Post Employee Benefits (OPEB) trust fund. The OPEB trust fund serves as the vehicle to pre-fund retiree health care benefits and reduce the County's financial burden. The County shall review the premium reserve funding level on an annual basis and communicate their request to LACERA accordingly.

17. The 2011-12 State Budget Act included ABx1 26 ("the Redevelopment Dissolution Act") prohibiting redevelopment agencies from engaging in new business and providing for their wind down and dissolution. Beginning in FY 2011-12 property tax increment formerly diverted to redevelopment agencies is

deposited into the Redevelopment Property Tax Trust Fund to pay enforceable obligations, pass through payments, and administrative costs. Remaining funds are distributed to affected taxing entities as "residual" property tax revenue. In addition to residual property tax revenue, the County will receive funds from the disposition of redevelopment agencies' fixed assets. Residual property tax revenue and revenue received from the disposition of redevelopment agencies' fixed assets should be used as follows:

Beginning in FY 2014-15, use all revenue received from Redevelopment Asset sales to provide funding for General Fund Capital Projects and Deferred Maintenance, Low to Moderate Income Housing, and/ or economic development.

Beginning in FY 2016-17, set aside 50% of Residual Property Tax incremental growth for General Fund Capital Expenditures including Debt Service requirements. Residual Property Tax incremental growth is defined as increases in Residual Property Tax the General Fund is projected to receive above the FY 2015-16 budgeted levels. Debt service amounts shall not exceed the Board's debt management guidelines as outlined in Board policy 4.040.

18. The allocation of ongoing supervisorial district-specific funding for ongoing financial obligations beyond the total number of years the sponsoring supervisor may serve pursuant to Section 4 of the Los Angeles County Charter less the number of years already served by the sponsoring supervisor at the time of the proposed funding agreement approval ("term-limited tenure"), shall require a four-fifths vote of the Board of Supervisors. The allocation of ongoing funding will require four-fifths vote when it is secured by any written agreement between the County and other contracting party or parties, including but not limited to, Social Program Agreements ("SPAs"), Memoranda of Understanding or other formal agreements without termination clauses or with a termination date exceeding the term-limited tenure of the sponsoring supervisor.

    In addition, the Chief Executive Office shall submit for Board approval transfers of funding that result in the substitution of net County cost funding for supervisorial district-specific funding.

19~~18~~. Require a four/fifths vote of the Board of Supervisors, on the following:

Any revisions to the Board's "Budget and Fiscal Policies."

Labor Agreements impacting salaries and employees benefits cost increases.

20~~19~~. Unless directed by the Board, exempt Board-adopted changes to these policies from Audit Committee review and remove all sunset dates and sunset review dates associated with this policy.

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Budget Priorities:

1. Public Safety and Justice (includes all law enforcement, justice, and public related operations)

2. Public Health and Welfare/Prevention (includes all health, welfare, and social service operations)

3. Direct Public Services (includes all recreational, cultural, consumer protection, and many regulatory operations)

4. Internal and Support Services (includes all central staff and support operations)

RESPONSIBLE DEPARTMENT

Chief Executive Office

DATE ISSUED/SUNSET DATE

Issue Date: December 17, 1996	**Sunset Review Date: December 17, 2003**
Re-issue Date: September 21, 2004	**Sunset Review Date: December 17, 2008**
Review Date: December 18, 2008	**Sunset Review Date: December 17, 2012**
Re-issue Date: January 27, 2009	**Sunset Review Date: December 17, 2012**
Review Date: May 21, 2009	**Sunset Review Date: December 17, 2012**
Review Date: October 25, 2012	**Sunset Review Date: December 17, 2016**
Review Date: March 19, 2014	

Note: On August 12, 2014, the Board of Supervisors approved Agenda Item No. 6 **removing all Sunset Dates and Sunset Review Dates associated with this policy.**